

INTER-ISLAND IS ORDERED TO GIVE OLD RATES AGAIN

Utilities Commission Finds Steamship Department Earns Handsome Profit

Figures show that the Inter-Island Steam Navigation Company, Limited, is and has been operating its steamship department at a rate of profit that is excessive, unreasonable and unjust.

On September 1, 1916, the company issued a new freight and passenger tariff raising certain of the theretofore existing charges for the carriage of freight and passengers which raise in rates, in the opinion of the commission, was unjustified, unwarranted and unreasonable and the commission so finds. In the opinion of the commission not only was said raise for the carriage of freight and passengers unreasonable and unjust but certain of the theretofore existing rates were and are excessive, unreasonable and unjust. The order of the commission will issue ordering the Inter-Island Steam Navigation Company, Limited, to reduce all charges for the carriage of passengers and freight to not exceed the rates and classifications which were in effect August 1, 1916, said rates to take effect on or before October 15, 1917.

Conclusion of the Public Utilities Commission in the Matter of the Investigation of the Inter-Island Steam Navigation Company, Limited.

After an investigation extending over a period of more than a year, from September 11, 1916, the Public Utilities Commission of the Territory of Hawaii rendered its decision yesterday and issued an order that the passenger and freight rates existing prior to August 1, 1916 shall be restored, that the company so amend its freight tariff that the total charge for less than quantity lots shall not exceed the minimum charge for quantity lots and put into effect such changes on or before October 15.

Interest is Widespread

Seldom has there been held in Hawaii an investigation that awakened more interest than did the one in which the decision was rendered yesterday. It started on a few specific charges but broadened in scope until the commission was making a general investigation of the financial affairs and bookkeeping methods of the company. Original costs, physical valuation, stock that was issued for cash and stock that was issued as dividends, and rates of dividends earned and paid all entered into the controversy.

At a regular meeting of the utilities commission held August 17, 1916, the investigation into the affairs of the Inter-Island Company was ordered and set for Monday, September 11, 1916, and the company was notified.

Specific Complaints Filed

Subsequent to this action, setting the date for a general investigation, complaints and protests were received by the commission from a proposed new tariff issued by the company to take effect September 1. Such complaints came from Alfred W. Carter, trustee Maui chamber of commerce, committee of Maui chamber of commerce and Wailuku Sugar Company. Specific complaint was made on rates for cattle, rates for general merchandise, freight to and from ports and over-carrying of freight.

The investigation was a general one into the affairs of the company and not merely a hearing on specific complaints. The commission therefore, the findings declare, has gone into the entire operations of the Inter-Island Company as a public utility corporation and, as a result of this investigation, a state of affairs has been disclosed that affects not only the specific complaints but the entire rate schedule of the company.

Jurisdiction Claims Answered

At the outset the commission answers the claim of the company that it is under the jurisdiction of the Inter-Island Commerce Commission and that therefore the utilities board is without jurisdiction. It cites Chapter 125 of the Revised Laws of Hawaii, 1915, as amended, and in the absence of any federal legislation on the subject cites the cases of the Wilmington Transportation Company vs. the Railroad Commission of California, and asserts that a United States Statute, H. R. 65—Public—No. 38—Sixty-fourth Congress specifically confirms the territorial legislation and H. R. 15, 455—Public—No. 260, Sixty-fourth Congress does not repeal H. R. 65.

The articles of incorporation of the company and the purposes for which it was incorporated are also set forth.

Wilderness Company Purchase

From the date of the commencement of business by the company after its incorporation up to July 1, 1905, the company was engaged in the transportation business with one competitor, the Wilder Steamship Company. Just prior to this date the capital stock of the company was \$600,000 and the capital stock of the Wilder Company was \$500,000.

When the testimony relative to the Wilder Company and how it was acquired by the Inter-Island Company was first sought to be introduced there was decided opposition to its introduction on the part of the company, the claim being made that such testimony was irrelevant and immaterial. It was decided to admit such testimony, however, and this was done.

The findings of the commission say that shortly prior to July 1, 1905, a syndicate composed of six of the seven directors of the Inter-Island company succeeded in acquiring control of a majority of the stock of the Wilder Company, paying therefor \$150,151 a share. Thereupon the Wilder company agreed to sell its entire business to the Inter-Island Company and the Inter-Island agreed to buy for \$750,000.

In order to put the transaction through \$750,000 new stock, 7500 shares of a par of \$100 each, of the Inter-Island company was issued for the purpose of effectuating the purchase, on the basis of a share and a half of the Inter-Island for a share of the Wilder. The syndicate purchasing for cash the stock of any holder in the Wilder Company who preferred cash to stock, on the same basis previously paid for control. In addition the syndicate was paid \$115,000, in cash (charged against the insurance fund of the Inter-Island Company) in return for the agreement to permit the other stockholders of the Inter-Island to subscribe pro rata for the portion of the stock that was issued against the Wilder stock held by the syndicate on a basis of \$75 for each share subscribed for.

An appraisal of the property of the Wilder Company was made which placed the total value \$329,687.92.

Stock Dividend Results

"In other words," said the commission, "the Inter-Island Company paid \$750,000 in stock and \$115,000 in cash or a total of \$865,000 for property which it recognized to be worth \$329,687.92. Fortunately the members of the syndicate did not make any cash profit on the deal. However, the transaction resulted in the stockholders receiving a stock dividend of \$25,312.08. At the same time additional stock to the amount of \$150,000 was issued as a stock dividend bringing the capital stock of the company up to \$1,500,000.

"Since July 1, 1905, two more stock dividends have been declared, June 30, 1909, \$750,000 and March 1, 1916, an other \$750,000, bringing the capital stock of the company to \$3,000,000.

"Of the present capital stock of \$3,000,000 the total amount representing contributions from the company is \$1,314,687.92."

A table follows showing the amount and percentage of dividends paid since the date of the purchase of the Wilder Steamship Company, together with the percentage of payments of dividends on the actual contributions of stockholders.

Big Earnings on Investment

This table shows that the average per cent of income return on actual contribution by stockholders, per year, eleven years to August 1, 1916, was 13.81 or since the date of the formation of the public utilities commission 16.65 per cent. On the capital stock the percentage of dividends per annum was nine.

The commission finds that the stock dividends of \$150,000 on July 1, 1905 and \$750,000 each on June 30, 1909, and March 1, 1916, were made possible by withdrawing from the undermentioned accounts the following sums:

Stock Dividend, July 1, 1905—
From insurance fund.... \$ 95,992.91
From surplus..... 54,007.09

\$150,000.00

Stock Dividend of June 30, 1909—
From repair fund..... \$125,000.00
From insurance fund.... 476,193.15
From surplus..... 148,806.85

\$750,000.00

Stock Dividend March 1, 1916—
From insurance fund.... \$ 77,074.71
From construction fund 42,914.47
From surplus fund..... 629,979.82

\$750,000.00

Thus there was contributed by stockholders \$1,314,687.92, and stock dividends were \$1,685,312.08, bringing the total capital stock to \$3,000,000.

Field's Work Valuable
These conclusions of the commission were made possible by the expert testimony of H. Gooding Field, who was employed as an accountant to expert

the books of the company for the purposes of the investigation. On this he spent many days over the books and many sessions were given over to his direct and cross examinations before the commission.

Referring to the stock dividends the commission says that the "Depreciation Fund," "Insurance Fund," "Construction and Repair Fund," and similar funds were not "funds" in the sense of being specific amounts set aside as reserves to meet certain contingencies, but were book accounts only.

Insurance Fund Pays Dividends

"The accounting practice of the Inter-Island Company," said the findings, "has been to make monthly charges to the operation of the steamers, steamer and compensation insurance, construction and repairs, mooring repairs, etc., and crediting these book accounts with similar amounts; the result being that the book profits of the steamers were correspondingly reduced by the amount of charges. Thus charges against operation of steamers on account of insurance have been so in excess of the actual cost to the company that since January 1, 1905, \$649,264.77 has been withdrawn from the 'Insurance Fund' and used for declaring stock dividends, an additional \$115,000 was withdrawn from the same fund for the purpose of paying the syndicate in the Wilder purchase, and yet, after deducting these two amounts of \$764,264.77 for purposes other than making good marine losses, the company had left in the 'Insurance Fund' on December 31, 1916, \$555,415.39. Instead of gradually reducing the amount of its insurance charge to its steamers or giving the steamers the benefit of no further charges, when the amount credited to the 'Insurance Fund' had reached a sum considered safe to meet all the likely insurance risks, the steamship company has continued making the charges. That the officers of the company considered the sum which had been charged against expenses of operation of steamers more than ample to meet insurance risks, is clearly evidenced by the withdrawals. The same procedure was allowed in the case of the so-called funds.

Big Dividends Received

"The financial history of the company shows that the stockholders of the company have contributed, initially and by means of the Wilder Steamship Company purchase a total of \$1,314,687.92 and that for the three years preceding August 1, 1916, the stockholders have received cash dividends of \$138,181 a year, while from the period from July 1, 1913, date of the creation of the public utilities commission, to August 1, 1916, they have received cash dividends on such investment of 16.65 per cent in addition to which cash dividends the stockholders have received stock dividends since 1905 of 128.19 per cent."

"While the testimony on which these findings are based was given by H. Gooding Field, the accountant, there were constant objections made by the company, as there was to the introduction of his and other testimony relative to the non-utility business of the company.

Non-Utility Departments
Next are taken up the non-utility branches of the company business, coal department, merchandising department, drydock and rigging loft. All of these are controlled and operated by the general officers and employees; the fuel used and invested in these lines of activities are the funds of the corporation; the bills incurred are against the corporation; the contracts are entered into by the corporation, and in other words the "Departments" do not exist except for bookkeeping purposes. No money, assets and liabilities other than the general funds, liabilities and assets of the corporation have gone toward making up these departments which have been initiated, built up and developed from the general funds of the corporation and at no time has any new money been invested in these departments. In brief the development of these departments has been entirely from the general assets of the company and from undistributed profits earned by the theretofore existing departments of the company.

Exact Profits From Vessels

"It has been contended by the representatives of the company that such policy was perfectly proper so long as the so-called steamship department was not charged more than the company charged third parties for the same supplies or services." The decision says in reference to the custom of charging repairs and other work on the steamers and for supplies of coal and merchandise furnished. "With such contention we do not agree. The charges made against the steamers as items of the cost of operation should and must be no more than the articles or services actually cost the company, including the cost of handling."

Relative to alleged overcharges to the steamship department for the years 1914, 1915 and 1916 by the merchandising department, the commission found:

"A summarization of the figures heretofore set forth shows the net profit for each of the years in question.

1914 1915 1916

Gross earnings of the steamship department of the company as shown by the company's books..... \$1,253,777.11 \$1,470,103.45 \$1,416,280.49

Gross expenses as shown by company's books..... 1,172,905.27 1,196,106.72 1,329,558.90

Net Profit as shown by company's books..... 80,872.14 173,996.73 86,821.59

Overcharges that must be deducted from the cost of operation as shown by the company's books, or as giving the same result, added to the net profit as shown by the company's books.....

Overcharge—merchandising department..... 25,180.66 26,467.48 22,987.01

"drydock department..... 9,235.58 3,488.73 10,882.26

"coal department..... 17,180.61 21,780.89 39,239.76

"emergency fund..... 2,663.45..... 4,636.18

"compensation insurance..... 5,808.65..... 3,700.01

Total..... \$ 133,125.44 \$ 231,520.48 \$ 168,277.84

Less undercharge to steamers on account of emergency fund..... 3,512.00

Net Profit on Operation of Steamers..... \$ 133,125.44 \$ 228,008.48 \$ 168,277.84

"If these figures are applied to the book value of the floating property and equipment of the company, as shown by the balance sheet for December 31st, 1914, 1915 and 1916, respectively, the percentage of profit for each of the years is seen to be as follows:

1914 1915 1916

Balance sheet value floating property and equipment..... \$1,508,712.91 \$1,160,749.53 \$1,467,393.43

Actual net profit made by steamship department..... 133,125.44 228,008.48 168,277.84

Percentage of Profit..... 7.38% 19.60% 11.46%

Inter-Department Profit

"All charges by the merchandising department for the years 1914, 1915 and 1916 that were profit were 24.31 per cent for 1914, 27.37 per cent for 1915 and 18.21 per cent for 1916. In consequence the amount of money charged to the expense of operation of steamers for each of those years, in each case, was an overcharge by the amount of this improper inter-departmental profit. Thus for the year 1914, for example, the amount charged to the operating expenses of the steamship department on account of goods supplied by the merchandising department, instead of being the amount of the actual cost to the company was 124.51 per cent of the actual cost.

"The following table shows the amount of overcharge in the operating expenses of the steamship department for each of the years brought about by the inter-departmental profit made by the merchandising department at the expense of the steamship department:

Year	Amount	Percent	Actual	Over-
1914	\$117,252.19	24.31	\$484,588.53	\$3,163.00
1915	123,109.58	27.37	40,702.45	26,467.48
1916	140,020.60	18.21	126,255.01	22,987.01

Book Profits Reduced

"In consequence of the overcharge in the expense of operation of the steamship department for each of the years 1914, 1915 and 1916, the net profit made by the steamship department for each of those years, as shown by the books of the company, are too low for each year by the amount of the overcharge."

"The dry dock department charges are next taken up in the same way and relative to alleged overcharges by that department the commission furnished a table showing the profits of that department were 19.11 per cent in 1914, in 1915 13.50 per cent and in 1916, 32.80.

Then follows this table to show the amount of overcharge to the steamship department through inter-departmental profit made by the dry dock department:

Year	Amount	Percent	Actual	Over-
1914	\$37,501.77	19.11	\$484,588.53	\$9,235.58
1915	31,025.01	13.50	21,780.89	3,488.73
1916	40,020.60	32.80	32,175.09	10,882.26

The same conclusion of overcharges by this department for the three years in these amounts, follows, as was drawn, similarly in the case of the merchandising department.

Other alleged overcharges are found in the coal department, lightering department, insurance industrial department and the findings come to the total amount of profit made by the steamship department for each of the years 1914, 1915 and 1916. In summarizing this report said:

Actual Profits Large

"The officers and directors of the company have contended through out the course of the hearing that the steamship department of the company was operating at a very small rate of profit, so small, in fact, as to be liable to be turned into a loss at any time. The figures produced before the commission, with the deductions made by the commission from such figures, not only show that such is not the case but that the steamship department of the company for each of those years operated at a very substantial profit.

Order Rate Reductions

As a result of the findings made the commission then entered the following order which was yesterday served upon the company:

"The commission having duly investigated the Inter-Island Steam Navigation Co., Ltd., and the steamship department of the company, and the findings against said corporation made in the office of the commission at public hearings duly held before the commission, and the commission being fully advised in the premises, the opinion of the commission having been duly filed this 28th day of September, 1917, it is the order of the commission: "That the Inter-Island Steam Navigation Co., Ltd., reduce all charges for the carriage of passengers and freight to not exceed the rates and classifications which were in effect on the last day of August, 1916;

"That the company so amend its freight tariff that the total charge for less than quantity lots shall not exceed the minimum charge for quantity lots;

"That said Inter-Island Steam Navigation Co., Ltd., put into effect such changes in rates and classifications on or before the 15th day of October, 1917.

"Dated at Honolulu, Territory of Hawaii, this 28th day of September, A. D., 1917.

WILLIAM T. CARDEN, Chairman.

A. J. GIGNOUX, Commissioner.

WILLIAM P. THOMAS, Commissioner.

May Question Jurisdiction

What course the company will now pursue remains to be determined. Its council and officials said yesterday they had not had sufficient time to thor-

Honolulu Wholesale Produce Market

Quotations
ISSUED BY THE TERRITORIAL MARKETING DIVISION September 28, 1917.

Wholesale Only.

SMALL CONSUMERS CANNOT BUY AT THESE PRICES

Island butter, lb.	None	Eggs, lb.	35 to 37
Eggs, select, doz.	75	Turkeys, lb.	45 to 50
Eggs, No. 1, doz.	73	Ducks, Musc. lb.	30
Eggs, duck, doz.	65	Ducks, Pekin, lb.	30
Young roosters, lb.	43 to 45	Ducks, Haw. dozen	7.00

VEGETABLES AND PRODUCE

Beans, string, green	.03	Peanuts, lg. lb.	None
Beans, string, wax	.04	Peanuts, sm. lb.	None
Beans, Lima in pod	.04	Green peppers, bell	.06
Beans, Lima red	8.00 to 9.00	Green peppers, chili	.05
Beans, Calico, cwt.	None	Potatoes, lb. Irish	None
Beans, Small white	None	Potatoes, sweet, cwt.	None
Pears, dry la. cwt.	None	Potatoes, sweet, lb.	1.10 to 1.25
Beets, doz. bunches	.30	Taro, cwt.	1.50 to 1.75
Carrots, doz. bunches	.40	Taro, bunch	.15
Cabbage, cwt.	3.00 to 3.50	Tomatoes	.05
Corn, sweet 100 ears	2.50 to 3.00	Green peas, lb.	None
Corn, Haw. sm. yel.	75.00 to 80.00	Cucumbers, dozen	25 to 30
Corn, Haw. lg. yel.	68.00 to 72.00	Pumpkins, lb.	.02 1/2
Rice, Japan seed, cwt.	6.50		
Rice, Haw. seed, cwt.	6.80		

FRUIT

Bananas, Chinese, bu.	20 to 40	Limes, 100	.90 to 1.00
Bananas, cooking, bunch	1.00 to 1.25	Pineapples, cwt.	1.50
Eggs, 100	.90	Papayas, lb.	.01
Grapes, Isabella, lb.	.10	Watermelons, lb.	.03 to .04

Cattle and sheep are not bought at live weight. They are slaughtered and paid for on a dressed weight basis. Hogs up to 150 lbs. 18 to 19 1/2.

DRESSED MEATS

Beef, lb.	13 to 14	Mutton, lb.	18 to 19
Veal, lb.	13 1/2 to 14	Pork, lb.	20 to 24

HIDES, WET SALTED

Steer, No. 1, lb.	18	Kips, lb.	18
Steer, No. 2, lb.	16	Goat, white, each	20 to 30
Steer, hair slip	16		

The following are quotations on FEED, f. o. b. Honolulu:

Corn, sm. yel., ton	90.00	Oats, ton	65.00 to 67.50
Corn, lg. yel., ton	85.00	Wheat, ton	87.50 to 88.00
Corn, cracked, ton	86.00 to 87.00	Middlings, ton	64.00 to 65.00
Bran, ton	52.00 to 53.00	Hay, wheat, ton	35.00 to 40.00
Barley, ton	57.50 to 58.00	Hay, alfalfa, ton	38.00
Scratch food, ton	86.00 to 88.00		

WEEKLY MARKET LETTER

Issued by the Territorial Marketing Division.
September 28, 1917.

Fresh Island eggs and poultry remain the same in price as last week and the demand for each is still greater than the supply.

Watermelons have advanced a cent a pound and there are not many melons coming into the market at present. The Maui crop has all been sold and the only melons being shipped to Honolulu now, are those from Kailua.

There are no Island Irish potatoes

ughly read and digest the findings of the report and could not say at that time what course would be pursued. This would be decided in due time.

It has been the contention of the Inter-Island Company from the beginning that since it was under the jurisdiction of the Inter-State Commerce Commission there could not be dual jurisdiction and hence the utilities board must be without jurisdiction. During the hearings this has been hinted or said repeatedly and the position of the company has appeared to be that it was participating in the inquiry, not because it was obliged to but for reasons other.

Whether it will now seek to avoid action on the order through court proceedings or some other appeal remains to be seen.

On the other hand, the shipping board may now prove to be a factor in the final settlement of the controversy for it has announced that freight rates were to come down both for ocean and for coastwise traffic and, rather than have the controversy come before that board there is the possibility that the Inter-Island Company will obey the order and restore the old rate.

The Haiku Substation under the direction of F. G. Krauss has recently completed bean fertilizer experiment on the farm of W. J. Cooper, Haiku, Maui. These tests clearly showed that great value of phosphoric acid fertilizers for beans on the soils in question.

To obtain the net cash gain of the fertilized crop over the unfertilized fertilized \$500 for fertilizer and cost of application from the increased value of the bean crop.

The full significance of the above results will be appreciated only when a careful study is made of the comparative yields between the fertilized and unfertilized plots. It should be noted that even at the current high prices on beans the unfertilized crops did not pay for the cost of production except in the case of the small White Navy beans which appear to be most adaptable variety to Haiku country. This variety yielded 1047 lbs. per acre, which at the present price of 10 cents per pound would bring \$104.70 gross, or about \$54.00 net after deducting \$50.00, the approximate average cost of production of field beans in the Haiku district.

The yields of the other two varieties without fertilizers was 335 lbs. for the Maui Reds and 398 lbs. for the Maui Calico, which are quoted at 8 cents and 6 cents respectively, and thus their yields would not pay the average cost of production. On the other hand, when fertilized at a cost of about \$50.00 per acre the net profit of the super phosphate fertilized Calico beans was \$27.92. Of the reverted phosphate fertilizer Maui Reds, the net profit was \$119.24 and for the White Navy the profit was \$137.60.